

Message Text

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14

ACTION EB-07

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COME-00 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02

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FM AMEMBASSY BUDAPEST

TO SECSTATE WASHDC 6432

INFO AMEMBASSY BERLIN

AMEMBASSY BUCHAREST

AMEMBASSY MOSCOW

AVAMBASSY PRAGUE 2166

AMEMBASSY SOFIA

AMEMBASSY WARSAW

USMISSION NATO

C O N F I D E N T I A L BUDAPEST 2359

E.O. 11652: GDS

TAGS: EALR, ETRD, ECIN, HU

SUBJ: HUNGARIAN FOREIGN TRADE

1. IN MEETINGS JULY 6-7 BETWEEN DR. JOHN HARDT, U.S. LIBRARY OF CONGRESS, AND VARIOUS SENIOR GOH OFFICIALS INTIMATELY INVOLVED WITH FOREIGN TRADE SEVERAL INTERESTING POINTS EMERGED.

2. THREE OFFICIALS (DEPUTY FOREIGN TRADE MINISTER TOROK; DEPUTY CHAIRMAN OF NATIONAL PLANNING OFFICE DRECIN; AND DEPUTY CHAIRMAN OF HUNGARIAN NATIONAL BANK FEKETE) EMPHASIZED THAT HUNGARY'S IMPORT REQUIREMENTS FOR GOODS AND TECHNOLOGY NEEDED TO MODERNIZE AND PROMOTE EXPORTS WILL HAVE TO BE MET, EVEN IF THERE IS A SHORTFALL IN AGRICULTURAL PRODUCTION OR OTHER FACTORS WHICH RESULT IN LOWER-THAN-
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PLANNED EXPORTS. NONE OF THE THREE WAS CLEAR AS TO HOW

THIS WOULD BE ACCOMPLISHED, I.E., THROUGH INCREASING DEBT, DRAWING ON RESERVES OR REDUCING LESS ESSENTIAL IMPORTS. DRECIN NOTED THAT SIZABLE BUFFERS ARE BUILT INTO PLANNED TRADING LEVELS.

3. ACCORDING TO DRECIN AN IMPORTANT STIMULUS FOR EXPORTERS IS THE RELATIVE LEVEL OF FOREIGN EXCHANGE RATES. FOR INSTANCE, THE RUBLE IS VALUED LOWER THAN THE DOLLAR FOR THOSE DEALING IN FOREIGN TRADE, ALTHOUGH "OUTSIDE HUNGARY" THE RUBLE IS WORTH MORE THAN THE DOLLAR. IN ADDITION, THE GOVERNMENT OCCASIONALLY GRANTS "SPECIAL" EXCHANGE RATES FOR SPECIFIED PROJECTS. (EMBASSY NOTE: THE EMBASSY HAS PREVIOUSLY REPORTED THAT THIS PRACTICE WAS TO BE DISCONTINUED AS OF JANUARY 1, 1976.)

4. DRECIN EMPHASIZED THAT HUNGARY'S ACCUMULATED HARD CURRENCY SURPLUSES WITH ITS CEMA TRADING PARTNERS (PRIMARILY THE SOVIET UNION) CANNOT BE USED TO SETTLE TRADE IMBALANCES WITH WESTERN COUNTRIES. DRECIN SAID THESE HARD CURRENCY RESERVES GIVE HUNGARY A STRONGER BARGAINING POSITION WITH THE SOVIETS TO OBTAIN HIGHER-THAN-PLANNED DELIVERIES OF RAW MATERIALS, AND THE FUNDS ARE ALSO USED FOR HUNGARY'S CONTRIBUTION TO SOVIET RAW MATERIALS PROJECTS WHICH WILL BENEFIT HUNGARY (HE MENTIONED THE CELLULOSE PROJECT AND THE ORENBURG PIPELINE). FEKETE, ON THE OTHER HAND, CLAIMED THAT HUNGARY IS FREE TO USE SUCH HARD CURRENCY SURPLUSES AS IT WISHES BUT THAT IT IS GOH POLICY ONLY TO USE THEM FOR CEMA TRADE OR USSR RAW MATERIALS PROJECTS. DRECIN NOTED THAT ALL CEMA COUNTRIES ATTEMPT TO DENOMINATE THEIR EXPORTS IN HARD CURRENCY WHENEVER POSSIBLE, BUT ONLY SUCCEED WHEN THEY HAVE THEIR TRADING PARTNERS "IN A CORNER". ALTHOUGH RAW MATERIALS (GRAIN, OIL AND BEEF) ARE THE MOST COMMON COMMODITIES EXCHANGED FOR HARD CURRENCY PRICES DRECIN NOTED THAT OTHER ITEMS ARE SOMETIMES SO TRADED. FOR EXAMPLE, HE SAID, HUNGARY SELLS ON A HARD CURRENCY BASIS DIESEL MOTORS TO ROMANIA FOR USE IN ROMANIAN-MANUFACTURED BUSES.

5. COMMENT: FEKETE HAS IN SEVERAL RECENT MEETINGS WITH
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WESTERNERS BEEN, IN THE EMBASSY'S OPINION, PROBABLY FOR HIS OWN REASONS OVERLY OPTIMISTIC AND IMPRECISE IN DESCRIBING HUNGARY'S TRADING POSITION VIS-A-VIS THE EAST AND THE WEST. THE EMBASSY WOULD PUT MUCH MORE CREDENCE ON DRECIN'S ASSERTION THAT THE HARD CURRENCY SURPLUSES HUNGARY HAS ACCUMULATED ARE BY NO MEANS USEABLE OUTSIDE DEMA, AND CAN ONLY BE USED TO BALANCE SOVIET SHIPMENTS OR TO PURCHASE EQUIPMENT AS HUNGARY'S CONTRIBUTION

TO RAW MATERIALS PROJECTS IN THE SOVIET UNION.
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